

Message Text

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 EURE-00 FRB-01 TRSE-00 CIAE-00

INR-05 NSC-05 NSCE-00 SAM-01 EB-03 L-01 SP-02 OMB-01

DODE-00 PM-03 /045 W

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P R 171432Z SEP 76

FM AMEMBASSY LISBON

TO SECSTATE WASHDC PRIORITY 8548

INFO AMEMBASSY BONN

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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C O N F I D E N T I A L SECTION 1 OF 2 LISBON 6387

LIMDIS

DEPT PLEASE PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: XGDS-4

TAGS: PFOR, ECON, PO

SUBJECT: COMMENTS BY PRIME MINISTER SOARES ON GOP'S
ECONOMIC PROGRAM

REF: LISBON 6329 (DTG 151554Z SEP 76)

SUMMARY: SOARES TOLD VISITING U.S. TREASURY EXPERTS
HIS GOVERNMENT WAS DETERMINED TO REVERSE THE COUNTRY'S
ECONOMIC DECLINE. NO ONE SHOULD DOUBT THE GOVERNMENT'S
POLITICAL WILL. ECONOMIC EFFICIENCY HAD TO BE IMPROVED.
THE GOVERNMENT WOULD NO LONGER SUBSIDIZE NONVIABLE
ENTERPRISES. THE LARGEST ECONOMIC DECISION, E.G.
DEVALUATION, HAD NOT YET BEEN TAKEN. DEVALUATION,
WHEN IT COMES, WILL HAVE TO BE ACCOMPANIED BY A SERIES
OF OTHER MEASURES TO AVOID DISSIPATING ITS BENEFITS.
THE PRINCIPAL POLITICAL HURDLES FOR THE GOVERNMENT'S
PROGRAM WERE THE LOCAL ELECTIONS AND THE QUESTION OF
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TRADE UNION UNITY. BY THE END OF THE YEAR THESE

OBSTACLES WOULD BE OVERCOME AND THE GOVERNMENT WOULD
BE ABLE TO TAKE EVEN STRONGER ECONOMIC MEASURES.
END SUMMARY

1. I ACCOMPANIED VISITING TREASURY OFFICIALS SYVRUD AND
WILLIS DURING A CALL TODAY, SEPTEMBER 17, ON PRIME
MINISTER MARIO SOARES. FINANCE MINISTER MEDINA
CARREIRA AND ECONOMIC COUNSELOR FERRER WERE ALSO
PRESENT.

2. SOARES SAID THE GOVERNMENT WAS MAKING A GREAT
EFFORT-- AND THERE COULD BE NO DOUBT ABOUT THIS --
TO MODIFY THE COUNTRY'S PRESENT ECONOMIC ORIENTATION.
AN END HAD TO BE PUT TO THE ABNORMAL SITUATION WHICH
PRESENTLY EXISTED. THE COUNTRY'S PRODUCTIVE PLANT
HAD TO BE PUT ON A SOLVENT, EFFICIENT BASIS. THE
GOVERNMENT INTENDED TO TERMINATE SUBSIDIES TO NON-
VIABLE ENTERPRISES. IT DID NOT INTEND TO RESPOND
TO PCP EFFORTS TO PROVOKE MORE STATE INTERVENTION.
SUCH INTERVENTION WOULD BE NO LONGER TAKE PLACE IN
COMPANIES WHERE THE POSSIBILITY OF NEGOTIATIONS BE-
TWEEN LABOR AND MANAGEMENT HAD NOT BEEN EXHAUSTED.

3. SOARES NOTED THE SYMBOLIC IMPORTANCE OF TWO
DECISIONS YESTERDAY BY THE COUNCIL OF MINISTERS. ONE
WAS TO ALLOW A COMPANY TO GO INTO BANKRUPTCY. THE
SECOND WAS TO ESTABLISH A BEET SUGAR REFINERY WITH
ONE-THIRD STATE OWNERSHIP, ONE-THIRD BY OTHER RELATED
COMPANIES, AND ONE-THIRD PUBLIC SUBSCRIPTION. BOTH
DECISIONS INDICATED THE GOVERNMENT'S FUTURE DIREC-
TION; LET INEFFICIENT ENTERPRISES DIE AND ENCOURAGE
COOPERATION BETWEEN THE GOVERNMENT AND THE PRIVATE
SECTOR.

4. SOARES SAID THAT HE COULD ALREADY SENSE A CHANGE
IN THE COUNTRY'S CLIMATE. TRUE, HIS SPEECH WAS
TOUGH ON WORKERS AND THE PCP HAD ATTACKED IT. BUT
EVEN THE PCP REALIZES THAT THE BALANCE OF POLITICAL
FORCES HAS SHIFTED. YESTERDAY, FOR EXAMPLE, HE HAD
MET FOR TWO AND A HALF HOURS WITH REPRESENTATIVES OF
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THE AGRICULTURAL WORKERS UNION (REFTEL). HE HAD
EXPECTED THE GROUP TO BE HOSTILE, BUT IT WAS NOT.

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THE RURAL UNION REALIZES THAT THE GOVERNMENT IS NOW
IN A POSITION TO CUT OFF RURAL CREDIT.

5. OBVIOUSLY, SOARES SAID, THE LARGEST ECONOMIC
DECISIONS HAD NOT YET BEEN MADE, SPECIFICALLY
DEVALUATION. A RESTRICTED GROUP, INCLUDING THE
FINANCE MINISTER AND THE GOVERNOR OF THE CENTRAL
BANK, IS STUDYING THE ISSUE. DEVALUATION, WHEN IT
COMES, WILL HAVE TO BE ACCOMPANIED BY A SERIES OF
CAREFUL MEASURES TO BE CERTAIN ITS BENEFITS WOULD
NOT BE LOST.

6. SOARES SAID THE ECONOMIC PROGRAM HAS TWO DIMEN-
SIONS, THE ECONOMIC AND THE POLITICAL. ON THE
POLITICAL SIDE THERE WERE TWO SIGNIFICANT OBSTACLES
AHEAD: LOCAL ELECTIONS AND THE FORTHCOMING TRADE
UNION CONGRESS. IT WAS PROBABLE THAT THERE WOULD BE
A SPLIT IN THE UNION MOVEMENT, AND THE SOCIALISTS
WERE MANEUVERING TO MAKE INTERSINDICAL RESPONSIBLE
FOR THE RUPTURE. IN CONSIDERING DEVALUATION IT WAS
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NECESSARY TO PREDICT ITS EFFECT ON THESE EVENTS.
BUT BY THE END OF THE YEAR THE MAJOR POLITICAL
PROBLEMS WOULD BE OVER THE GOVERNMENT WOULD BE
ABLE TO TAKE EVEN STRONGER AND MORE EFFECTIVE
ECONOMIC MEASURES. THESE WOULD BE FORESHADOWED IN
ITS DEVELOPMENT PLAN AND ITS BUDGET FOR 1977 WHICH
MUST BE SUBMITTED TO THE ASSEMBLY BY NOVEMBER 15.

7. NO ONE SHOULD DOUBT THE POLITICAL WILL OF THE
GOVERNMENT TO RETAKE THE SITUATION IN HAND, SOARES SAID.
"WE KNOW WE ARE ON A DOWNWARD PLANE AND HAVE TO RE-
VERSE OUR COURSE. WE DON'T WANT ANY MORE LOANS TO
SUBSIDIZE CONSUMPTION. WE HAVE A PLAN TO GET OUT OF
THE SITUATION IN WHICH WE PRESENTLY FIND OURSELVES
AND INTEND TO IMPLEMENT IT."

8. SOARES UNDERSCORED THE GOVERNMENT'S POLICY OF
STRENGTHENING ITS RELATIONS WITH EUROPE AND MENTION-
ED NEGOTIATIONS TO ENTER INTO THE COMMON MARKET. HE
NOTED THAT EUROPE'S ECONOMIC CONCERNS PARALLELED
THOSE OF THE USG. HE EMPHASIZED THAT FAVORABLE
EVOLUTION IN PORTUGAL WAS IMPORTANT AS AN EXAMPLE,
NOT ONLY TO SPAIN BUT TO THE REST OF EUROPE. HE
RECALLED THE SERIOUS CONSEQUENCES THAT COULD HAVE
OCCURRED HAD EVENTS NOT BEGUN TO TURN AROUND IN
PORTUGAL. HE NOTED IN PASSING THAT THIS REVERSAL
HAD BENEFITS IN OTHER AREAS. FOR EXAMPLE, THE GOP
WAS MOVING AHEAD IN ESTABLISHING RELATIONS WITH
ANGOLA, AND HE EXPECTED THAT BY THE END OF THE MONTH
THEY WOULD BE IN A POSITION TO "BUILD A BRIDGE" THAT
WOULD HELP THE WEST PREVENT ANGOLA FROM GOING INTO
THE HANDS OF THE SOVIETS.

9. COMMENT: SOARES' COMMENTS MUST BE READ IN CON-
TEXT OF SERIES OF MEETINGS BETWEEN TREASURY OFFICIALS
AND GOP REPS (SEPTTEL). HE CONCENTRATED LESS ON
TECHNICAL QUESTIONS THAN ON CONVEYING HIS OWN PER-
SONAL DETERMINATION TO MOVE AHEAD. THE EMBASSY
BELIEVES HE IS CORRECT IN SENSING A CHANGE IN THE
CLIMATE IN THE WEEK FOLLOWING SOARES' SPEECH.
SYVRUD AND WILLIS WILL MAKE THEIR OWN REPORT,
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BUT THE EMBASSY'S FEELING IS THAT THE GOVERNMENT IS
VERY SERIOUS; IT RECOGNIZES CLEARLY THERE IS NO
ALTERNATIVE TO STRONG MEASURES. AT SAME TIME IT
MUST WEIGH THE POLITICAL CONSEQUENCES OF ITS ACTS,
PARTICULARLY IN THE LABOR SECTOR. IF IT COMPLETELY
FORFEITS LABOR TO THE COMMUNISTS, PORTUGUESE
DEMOCRACY IS IN SERIOUS JEOPARDY. WITHOUT SOME

LABOR SUPPORT, ECONOMIC RECOVERY CAN ONLY BE
IMPOSED BY MILITARY FORCE. IF THAT HAPPENS, THE
STAGE WILL BE SET FOR THE KIND OF POLARIZATION AND
INSTABILITY WHICH WOULD GIVE A SHOT OF ADRENALINE
TO A PRESENTLY DISPIRITED AND DEFENSIVE PORTUGUESE
COMMUNIST PARTY.
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